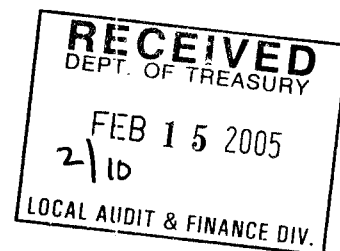


ECONOMIC DEVELOPMENT  
CORPORATION OF THE  
CITY OF DETROIT  
(A Component Unit of the  
City of Detroit, Michigan)

**FINANCIAL STATEMENTS**

**June 30, 2004 and 2003**



## ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

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& Company**

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**INDEPENDENT AUDITORS' REPORT**

July 29, 2004

To the Board of Directors  
Economic Development Corporation of the City of Detroit  
Detroit, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Economic Development Corporation of the City of Detroit ("EDC"), a component unit of the City of Detroit, Michigan, as of, and for the years ended, June 30, 2004 and 2003, which collectively comprise EDC's basic financial statements as listed in the table of contents. These financial statements are the responsibility of EDC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of EDC as of June 30, 2004 and 2003, and the respective changes in financial position thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis and schedule of revenue and expenditures - budget and actual (unrestricted fund) are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



CERTIFIED PUBLIC ACCOUNTANTS

# ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

**June 30, 2004**

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This section of the annual report of the Economic Development Corporation of the City of Detroit ("EDC") presents management's discussion and analysis of EDC's financial performance during the fiscal year that ended on June 30, 2004. Please read it in conjunction with EDC's financial statements, which follow this section.

### **FINANCIAL HIGHLIGHTS**

EDC continued its work on some of the City's most exciting projects. The East Riverfront Redevelopment Project is going forward. The Graimark Housing project continued its progress. The I-94 Industrial Park Project has moved to the next phase. Land assembled and readied during the first phase of the project was sold, providing additional funding for future phases.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report contains two types of financial statements. The statements of net assets and statements of activities (which are presented on pages 7 and 8) are considered government-wide financial statements. The balance sheets and statements of revenue, expenditures, and fund balances for governmental funds (which are presented on pages 9, 10, and 12) are considered fund financial statements. A further discussion of each type of statement follows.

#### **Government-Wide Financial Statements**

The government-wide financial statements report information about EDC as a whole using accounting methods similar to those used by private-sector companies and non-profit organizations. The statements of net assets include all of EDC's assets and liabilities. All of the current year's revenue and expenses are accounted for in the statements of activities, regardless of when cash is received or paid.

The two government-wide financial statements report EDC's net assets and how they have changed. Net assets represent the difference between EDC's assets and liabilities, and they represent one way to measure EDC's financial health, or position. Over time, increases or decreases in EDC's net assets are an indicator of whether its financial health is improving or deteriorating.

#### **Fund Financial Statements**

The fund financial statements provide more detailed information about EDC's funds, not EDC as a whole. Funds are accounting devices that EDC uses to keep track of specific sources of funding and spending for particular purposes.

Most of EDC's activities are included in governmental funds, which focus on how cash, and other financial assets that can be readily converted to cash, flow in and out, and show the balances left at the end of the year that are available for spending.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)**

June 30, 2004

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)****Fund Financial Statements (continued)**

As such, the fund financial statements provide a detailed short-term view that shows whether there are more or fewer financial resources that can be spent in the near future to finance EDC's programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, additional information is provided on pages 11 and 13 that explains the relationship between the fund financial statements and the government-wide financial statements.

The notes to the financial statements, which begin on page 14, explain some of the information in the financial statements and provide more detailed data. A comparison of EDC's unrestricted fund revenue and expenditures to its budget is provided on page 25.

**FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE**

Table 1 reflects the condensed statements of net assets as of June 30, 2004 and 2003:

Table 1

**Statements of Net Assets**

June 30, 2004 and 2003

*(in millions of dollars)*

	<u>2004</u>	<u>2003</u>
<b>Assets:</b>		
Cash and investments	\$ 70.2	\$ 71.4
Notes receivable	2.6	13.1
Other assets	<u>2.1</u>	<u>1.1</u>
<b>Total Assets</b>	<u><b>74.9</b></u>	<u><b>85.6</b></u>
<b>Liabilities:</b>		
Long-term liabilities:		
Due or expected to be paid within one year	1.5	4.4
Due or expected to be paid in more than one year	1.3	7.6
Other liabilities	<u>49.0</u>	<u>55.7</u>
<b>Total Liabilities</b>	<u><b>\$ 51.8</b></u>	<u><b>\$ 67.7</b></u>

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)**

**June 30, 2004**

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**FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE (CONTINUED)**

**Table 1**

**Statements of Net Assets (continued)**

**June 30, 2004 and 2003**

*(in millions of dollars)*

	<u>2004</u>	<u>2003</u>
<b>Net Assets:</b>		
Restricted for development	\$ 22.9	\$ 17.7
Unrestricted	<u>0.2</u>	<u>0.2</u>
<b>Total Net Assets</b>	<u><u>\$ 23.1</u></u>	<u><u>\$ 17.9</u></u>

The net assets of EDC increased 29 percent to approximately \$23.1 million. This increase is due primarily to proceeds from land assembled and from recycled loan repayments reprogrammed by the City's Planning Department and its Downtown Development Authority, to be used in various projects.

Notes receivable decreased significantly, by approximately \$10.5 million, but that is offset by a similar decrease in long-term liabilities. These changes are due to the repayment of two significant notes receivable to EDC, and EDC's subsequent repayment of Section 108 funds to the City.

Table 2 reflects the condensed statements of activities for the years ended June 30, 2004 and 2003:

**Table 2**

**Statements of Activities**

**For the Years Ended June 30, 2004 and 2003**

*(in millions of dollars)*

	<u>2004</u>	<u>2003</u>
<b>Revenue:</b>		
Program revenue:		
Reimbursable project costs	\$ 16.4	\$ 6.2
Other program revenue	0.7	1.1

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)**

**June 30, 2004**

**FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE (CONTINUED)**

**Table 2**

**Statements of Activities (continued)**

**For the Years Ended June 30, 2004 and 2003**

*(in millions of dollars)*

	<u>2004</u>	<u>2003</u>
<b>Revenue (continued):</b>		
General revenue:		
Grants	<u>\$ 0.3</u>	<u>\$ 0.3</u>
<b>Total Revenue</b>	<b>17.4</b>	<b>7.6</b>
<b>Expenses:</b>		
Economic development	<u>12.2</u>	<u>10.4</u>
<b>Net Increase (Decrease) in Net Assets</b>	<b>5.2</b>	<b>(2.8)</b>
Net Assets, Beginning of Year	<u>17.9</u>	<u>20.7</u>
<b>Net Assets, End of Year</b>	<b><u>\$ 23.1</u></b>	<b><u>\$ 17.9</u></b>

The change in net assets was discussed earlier. Reimbursable project costs increased because of the land proceeds and reprogrammed project revenue. Expenses increased slightly, primarily due to the continued acquisition, relocation, and construction activity on EDC's various projects.

The following are highlights of the comparison of EDC's unrestricted fund revenue and expenditures to its budget, as shown on page 25:

1. Due to timing differences and lower than expected interest rates, EDC was not able to earn its expected amount of interest income.
2. Increases in the costs of insurance and other professional fees, as well as in the workload of the providers of professional services, resulted in a negative variance. EDC received early payoffs on two of its largest loans, and had an increase in its project activity during the fiscal year.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)**

**June 30, 2004**

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**LONG-TERM LIABILITIES**

EDC's long-term liabilities consist of a line of credit with Bank One and several loans payable to the City of Detroit for various projects that utilize U.S. Department of Housing and Urban Development ("HUD") section 108 or Urban Development Action Grant ("UDAG") funds. This activity is summarized in Note C to the financial statements.

**ECONOMIC FACTORS**

EDC receives its funding from the City of Detroit Planning Department, as well as from recycled program funds. Economic factors that could adversely affect EDC in the future include decreased funding from the City and a lack of future projects that would allow EDC to continue to recycle funds. EDC's management does not anticipate either of these potential factors to adversely affect EDC in the foreseeable future.

**FINANCIAL CONTACT**

This financial report is designed to present its users with a general overview of EDC's finances and to demonstrate EDC's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the office of the chief financial officer of Detroit Economic Growth Corporation, 500 Griswold, Suite 2200, Detroit, Michigan 48226.



ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

**STATEMENTS OF NET ASSETS**

**June 30, 2004 and 2003**

	<b>Governmental Activities</b>	
	<b>2004</b>	<b>2003</b>
<b>Assets:</b>		
Cash	\$ 3,170,197	\$ 2,262,067
Escrow deposits (Note A)	48,262,665	54,444,118
Investments (Note A)	18,774,558	14,654,674
Contracts receivable - City of Detroit (no allowance considered necessary)	1,009,482	25,325
Accounts receivable (no allowance considered necessary):		
Expected to be received within one year	46,725	48,356
Expected to be received in more than one year	1,000,000	1,000,000
Accrued interest receivable	2,848	2,455
Notes receivable, net (Notes A and B)	2,592,196	13,127,959
<b>Total Assets</b>	<b>74,858,671</b>	<b>85,564,954</b>
<b>Liabilities:</b>		
Accounts payable	48,718,792	54,379,217
Due to Detroit Economic Growth Corporation	51,803	28,887
Accrued interest payable	248,092	959,790
Deferred revenue	-0-	315,954
Long-term liabilities (Note C):		
Due or expected to be paid within one year	1,508,185	4,388,217
Due or expected to be paid in more than one year	1,255,963	7,614,969
<b>Total Liabilities</b>	<b>51,782,835</b>	<b>67,687,034</b>
<b>Net Assets:</b>		
Restricted for development	22,890,567	17,651,220
Unrestricted	185,269	226,700
<b>Total Net Assets</b>	<b>\$ 23,075,836</b>	<b>\$ 17,877,920</b>

See notes to financial statements.

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

**STATEMENTS OF ACTIVITIES**

**For the Years Ended June 30, 2004 and 2003**

	<b>Governmental Activities</b>	
	<b>2004</b>	<b>2003</b>
<b>Expenses:</b>		
Economic development program:		
Project costs	\$ 8,353,383	\$ 7,547,692
Professional services	1,190,079	795,964
Administrative and operating expenses (Note A)	648,010	588,387
Interest expense	19,320	87,130
Loan reserves, loan credits, and uncollectible fees	2,016,964	1,366,425
<b>Total Program Expenses</b>	<b>12,227,756</b>	<b>10,385,598</b>
<b>Program Revenue:</b>		
Economic development program:		
Reimbursable project costs	16,414,664	6,150,736
Interest and other program revenue	709,013	1,154,229
<b>Total Program Revenue</b>	<b>17,123,677</b>	<b>7,304,965</b>
<b>Net Program (Revenue) Expense</b>	<b>(4,895,921)</b>	<b>3,080,633</b>
<b>General Revenue:</b>		
Grants	300,000	300,000
Interest and other revenue	1,995	2,804
<b>Total General Revenue</b>	<b>301,995</b>	<b>302,804</b>
<b>Net Increase (Decrease) in Net Assets</b>	<b>5,197,916</b>	<b>(2,777,829)</b>
Net Assets, Beginning of Year	17,877,920	20,655,749
<b>Net Assets, End of Year</b>	<b>\$ 23,075,836</b>	<b>\$ 17,877,920</b>

See notes to financial statements.

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

**BALANCE SHEETS - GOVERNMENTAL FUNDS**

June 30, 2004 and 2003

	2004			2003		
	Unrestricted Fund	Restricted Funds	Total All Funds	Unrestricted Fund	Restricted Funds	Total All Funds
<b>ASSETS</b>						
Cash	\$ 15,867	\$ 3,154,330	\$ 3,170,197	\$ 4,286	\$ 2,257,781	\$ 2,262,067
Escrow deposits (Note A)		48,262,665	48,262,665		54,444,118	54,444,118
Investments (Note A)	181,411	18,593,147	18,774,558	234,438	14,420,236	14,654,674
Contracts receivable - City of Detroit (no allowance considered necessary)	50,000	959,482	1,009,482	25,000	325	25,325
Accounts receivable (no allowance considered necessary)		46,725	46,725		48,356	48,356
Accrued interest receivable		2,848	2,848		2,455	2,455
Notes receivable, net (Notes A and B)		2,592,196	2,592,196		13,127,959	13,127,959
<b>Total Assets</b>	<b>\$ 247,278</b>	<b>\$ 73,611,393</b>	<b>\$ 73,858,671</b>	<b>\$ 263,724</b>	<b>\$ 84,301,230</b>	<b>\$ 84,564,954</b>

See notes to financial statements.

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

**BALANCE SHEETS - GOVERNMENTAL FUNDS (CONTINUED)**

June 30, 2004 and 2003

	2004			2003		
	Unrestricted Fund	Restricted Funds	Total All Funds	Unrestricted Fund	Restricted Funds	Total All Funds
<b>LIABILITIES AND FUND BALANCES</b>						
<b>Liabilities:</b>						
Accounts payable	\$ 16,169	\$ 48,702,623	\$ 48,718,792	\$ 14,100	\$ 54,365,117	\$ 54,379,217
Due to Detroit Economic Growth Corporation	45,840	5,963	51,803	22,924	5,963	28,887
Accrued interest payable		248,092	248,092		959,790	959,790
Deferred revenue			-0-		315,954	315,954
Maturing loans payable (Note C)		1,508,185	1,508,185		4,388,217	4,388,217
<b>Total Liabilities</b>	<b>62,009</b>	<b>50,464,863</b>	<b>50,526,872</b>	<b>37,024</b>	<b>60,035,041</b>	<b>60,072,065</b>
<b>Fund Balances:</b>						
Reserved for development		23,146,530	23,146,530		24,266,189	24,266,189
Unreserved	185,269		185,269	226,700		226,700
<b>Total Fund Balances</b>	<b>185,269</b>	<b>23,146,530</b>	<b>23,331,799</b>	<b>226,700</b>	<b>24,266,189</b>	<b>24,492,889</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 247,278</b>	<b>\$ 73,611,393</b>	<b>\$ 73,858,671</b>	<b>\$ 263,724</b>	<b>\$ 84,301,230</b>	<b>\$ 84,564,954</b>

See notes to financial statements.

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

**RECONCILIATIONS OF GOVERNMENTAL FUNDS BALANCE SHEETS TO  
STATEMENTS OF NET ASSETS**

**June 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
Total Fund Balances, Governmental Funds	\$ 23,331,799	\$ 24,492,889
Amounts reported for governmental activities in the statements of net assets differ from amounts reported in the governmental funds balance sheets due to the following:		
Long-term accounts receivable applicable to governmental activities are not due and collectible in the current period and, therefore, are not reported in the funds.	1,000,000	1,000,000
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the funds. These liabilities consist of the following:		
Line of credit and loans payable	<u>(1,255,963)</u>	<u>(7,614,969)</u>
<b>Total Net Assets, Governmental Activities</b>	<b><u>\$ 23,075,836</u></b>	<b><u>\$ 17,877,920</u></b>

See notes to financial statements.

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

**STATEMENTS OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**

For the Years Ended June 30, 2004 and 2003

	2004			2003		
	Unrestricted Fund	Restricted Funds	Total All Funds	Unrestricted Fund	Restricted Funds	Total All Funds
<b>Revenue:</b>						
Grants	\$ 300,000	\$ -0-	\$ 300,000	\$ 300,000	\$ -0-	\$ 300,000
Reimbursable project costs		16,414,664	16,414,664		6,150,736	6,150,736
Interest and other income	1,995	709,013	711,008	2,804	1,154,229	1,157,033
<b>Total Revenue</b>	<b>301,995</b>	<b>17,123,677</b>	<b>17,425,672</b>	<b>302,804</b>	<b>7,304,965</b>	<b>7,607,769</b>
<b>Expenditures:</b>						
Current:						
Project costs		8,353,383	8,353,383		7,547,692	7,547,692
Professional services	46,136	1,143,943	1,190,079	31,080	764,884	795,964
Administrative and operating expenses (Note A)	647,290	720	648,010	587,877	510	588,387
Interest expense		19,320	19,320	8,715	78,415	87,130
Loan reserves, loan credits, and uncollectible fees		2,016,964	2,016,964		1,366,425	1,366,425
Debt service (Note C)		6,359,006	6,359,006		2,141,976	2,141,976
<b>Total Expenditures</b>	<b>693,426</b>	<b>17,893,336</b>	<b>18,586,762</b>	<b>627,672</b>	<b>11,899,902</b>	<b>12,527,574</b>
<b>Excess (Deficiency) of Revenue over Expenditures</b>	<b>(391,431)</b>	<b>(769,659)</b>	<b>(1,161,090)</b>	<b>(324,868)</b>	<b>(4,594,937)</b>	<b>(4,919,805)</b>
<b>Other Financing Sources (Uses):</b>						
Interfund transfers	350,000	(350,000)	-0-	452,715	(452,715)	-0-
Refinancing of long-term debt (Note C)			-0-		5,208,000	5,208,000
<b>Net Increase (Decrease) in Fund Balances</b>	<b>(41,431)</b>	<b>(1,119,659)</b>	<b>(1,161,090)</b>	<b>127,847</b>	<b>160,348</b>	<b>288,195</b>
Fund Balances, Beginning of Year	226,700	24,266,189	24,492,889	98,853	24,105,841	24,204,694
<b>Fund Balances, End of Year</b>	<b>\$ 185,269</b>	<b>\$ 23,146,530</b>	<b>\$ 23,331,799</b>	<b>\$ 226,700</b>	<b>\$ 24,266,189</b>	<b>\$ 24,492,889</b>

See notes to financial statements.

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

**RECONCILIATIONS OF GOVERNMENTAL FUNDS STATEMENTS OF REVENUE,  
EXPENDITURES, AND CHANGES IN FUND BALANCES TO STATEMENTS OF  
ACTIVITIES**

**For the Years Ended June 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
Net Increase (Decrease) in Fund Balances, Governmental Funds	\$ (1,161,090)	\$ 288,195
<p>Amounts reported for governmental activities in the statements of activities differ from amounts reported in the governmental funds statements of revenue, expenditures, and changes in fund balances due to the following:</p>		
<p>Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statements of net assets. During the years presented, these amounts consist of the following:</p>		
Repayment and maturing of line of credit and loans payable	6,359,006	2,141,976
Refinancing of long-term debt	<u>-0-</u>	<u>(5,208,000)</u>
<b>Net Increase (Decrease) in Net Assets, Governmental Activities</b>	<b><u>\$ 5,197,916</u></b>	<b><u>\$ (2,777,829)</u></b>

See notes to financial statements.

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2004 and 2003**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Activities and Purpose**

The Economic Development Corporation of the City of Detroit ("EDC") was established under Act No. 338 of the Public Acts of 1974, as amended. Its purpose is to encourage economic development within the City of Detroit, Michigan (the "City") by assisting with the location and expansion of industrial and commercial enterprises in the City.

EDC is empowered to issue limited obligation economic development revenue bonds to finance industrial expansion and relocation within the City, as authorized under Act No. 338 of the Public Acts of 1974, as amended. The ultimate retirement of these bonds is dependent on sufficient revenue from the lease of applicable properties. EDC recycles various grant funds received to provide loans to qualified businesses in the City for commercial and industrial location and expansion at rates less than the prevailing market. Collections on these loans, including interest, are recycled for use in providing similar loans.

For financial reporting purposes, EDC, along with its wholly-owned subsidiary, Neighborhood Development Corporation, is a component unit of the City because the members of EDC's Board of Directors are appointed by the City's mayor and are confirmed by the Detroit City Council. There are no fiduciary funds or component units included in the accompanying financial statements.

**Basis of Presentation**

The financial statements of EDC consist of government-wide financial statements, which include the statements of net assets and statements of activities, and fund financial statements, which include the balance sheets and statements of revenue, expenditures, and fund balances for governmental funds.

**Government-Wide Financial Statements**

The government-wide financial statements report information about all of EDC's assets, liabilities, net assets, revenue, and expenses, similar to the financial statements of non-governmental enterprises.

**Fund Financial Statements**

For purposes of the fund financial statements, the accounts of EDC are organized on the basis of governmental funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue, and expenditures.



**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

June 30, 2004 and 2003

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Presentation (continued)**

**Fund Financial Statements (continued)**

The following funds are used by EDC:

**Unrestricted Fund**

The unrestricted fund is the general operating fund of EDC. It is used to account for all financial resources other than those required to be accounted for in another fund.

**Restricted Funds**

These special revenue funds reflect the receipt of grant funds, loans issued, and repayments of interest and principal which are restricted for recycling for use in similar economic development projects. These funds are not required to legally adopt a budget.

**Basis of Accounting**

**Government-Wide Financial Statements**

The government-wide financial statements are prepared on the accrual basis of accounting using the economic resources measurement focus. Accordingly, revenue is recorded when earned, and expenses are recorded when incurred. Grants and other revenue intended for use within the restricted funds are classified as program revenue. All other revenue is classified as general revenue.

**Fund Financial Statements**

The fund financial statements are prepared on the modified accrual basis of accounting using the flow of current financial resources as a measurement focus. Under the modified accrual basis of accounting, revenue is recorded when susceptible to accrual, which is when it is both measurable and available. "Available" means collectible within the current period or soon enough thereafter (within 60 days) to be used to pay liabilities of the current period. Expenditures, other than interest on long-term debt, are recorded when the liability is incurred, if measurable.

In applying the susceptible-to-accrual concept to intergovernmental revenue, the legal and contractual requirements of the numerous individual programs are used as guidance. Monies virtually unrestricted as to purpose of expenditure and revocable only for failure to comply with prescribed compliance requirements are reflected as revenue at the time of receipt or earlier if the susceptible-to-accrual criteria are met.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

June 30, 2004 and 2003

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****Administration**

For the years ended June 30, 2004 and 2003, EDC entered into agreements with Detroit Economic Growth Corporation ("DEGC") for administrative and professional services at an annual cost not to exceed \$625,000 and \$575,000, respectively. These expenditures are reflected in administrative expenses for services rendered for the years ended June 30, 2004 and 2003.

**Accounting for Notes Receivable**

EDC is in the business of loaning funds to various companies for which, in some cases, the collection process does not begin immediately. In those instances, the collection process may not begin for a number of years. EDC provides a reserve for these loans if and when the loans are deemed to be partially or fully uncollectible. Due to the nature of the collection terms on these loans, recoverability of these loans may be uncertain and, furthermore, may not be evident for a number of years. The ultimate collectibility of these loans is dependent upon the long-term viability of these companies.

**Grant Revenue**

Grant revenue is recognized when expenses that are reimbursable under an agreement with the funding source are incurred.

**Cash and Investments**

EDC's cash deposits are held in financial institutions insured as members of the Federal Deposit Insurance Corporation in EDC's name. As of June 30, 2004 and 2003, EDC's carrying amount of deposits and bank balances, and the bank balances covered by federal depository insurance, are as follows:

	<u>2004</u>	<u>2003</u>
Carrying amount of deposits	\$ 3,170,197	\$ 2,262,067
Bank balances	<u>\$ 3,199,978</u>	<u>\$ 2,262,027</u>
Bank balances covered by federal depository insurance	<u>\$ 225,000</u>	<u>\$ 200,000</u>

Investments are recorded at fair value, based on quoted market prices, which approximates cost. SGAS No. 3, "Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements," requires classification of investments into one of three categories based upon credit risk. Category 1 includes investments that are insured or registered or which are held by EDC or its agent in EDC's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in EDC's name.

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**June 30, 2004 and 2003**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Cash and Investments (continued)**

Category 3 includes uninsured and unregistered investments which are held by the counterparty, or are held by the counterparty's trust department or agent, but are not in EDC's name. As of June 30, 2004 and 2003, investments are classified as follows:

	<u>2004</u>	<u>2003</u>
<b>Category 2:</b>		
U.S. government obligations	<u>\$ 18,774,558</u>	<u>\$ 14,654,674</u>

**Escrow Deposits**

Escrow deposits are monies which are held in an escrow account administered by a financial institution designated by EDC and are used specifically for a development project. Interest earnings are either capitalized for future development use or remitted to EDC upon notice. In both cases, interest earnings are recognized as interest income by EDC. Escrow deposits as of June 30, 2004 and 2003 are for casino land development.

**Bonds Issued**

Bonds issued by EDC are not obligations of EDC and, accordingly, are not reflected on the accompanying financial statements. The bonds are secured by indentures and mortgages on real property.

**Interfund Transactions and Eliminations**

Interfund transactions are recorded as a payable by the receiving fund and as a receivable by the advancing fund in the fund financial statements. All interfund transactions and balances have been eliminated in the accompanying financial statements.

**Concentration of Credit Risk**

Financial instruments which potentially subject EDC to concentrations of credit risk consist principally of cash, investments, escrow deposits, and notes receivable.

EDC's cash, investments, and escrow deposits are located in various financial institutions in Detroit, Michigan. The amounts on deposit in each of two financial institutions exceed the \$100,000 federally insured limit. Concentrations of credit risk with respect to notes receivable arise as a result of loaning funds to various businesses, including higher risk businesses, all of which are located in the Detroit metropolitan area.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)****June 30, 2004 and 2003****NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****Allowance for Doubtful Notes Receivable**

EDC charges notes receivable to the allowance for doubtful notes receivable when it is probable that a note receivable is impaired (that is, when EDC will be unable to collect all amounts due according to the contractual terms of the agreement). Changes in the present value of an obligation's expected future cash flows from one reporting period to the next are recorded as additions or reductions to the allowance for doubtful notes receivable. EDC also includes in the allowance for doubtful notes receivable a general provision based on EDC's historical recovery of these receivables.

**NOTE B - NOTES RECEIVABLE**

Notes receivable as of June 30, 2004 and 2003 consist of the following:

	<u>2004</u>	<u>2003</u>
<b><u>Urban Development Action Grants</u></b>		
Note receivable, secured by real property. Interest thereon at zero percent, with the principal payable 40 years after the earlier of the completion of construction or October 24, 1988.	\$ -0-	\$ 6,500,000
Note receivable, collateralized by mortgage on building and improvements. Interest at 7.5 percent with no interest accruing during construction period. Monthly repayment shall be \$7,989 for 20 years commencing on March 31, 1985, with unpaid balance due in full at end of the 20-year payment period.	445,467	500,547
Note receivable, collateralized by a fee mortgage on real property. Interest payable based on cash flow availability and principal repayment to occur 20 years after the earlier of construction completion or June 30, 1987.	<u>275,000</u>	<u>275,000</u>
	<u>\$ 720,467</u>	<u>\$ 7,275,547</u>

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004 and 2003

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NOTE B - NOTES RECEIVABLE (CONTINUED)

	<u>2004</u>	<u>2003</u>
<u>Federal Block Grants</u>		
Note receivable, on a non-interest bearing basis, due in 2010, or upon sale or refinancing of the project as per terms of the agreement.	\$ 600,000	\$ 600,000
Note receivable, collateralized by a mortgage on building and improvements. Interest at 7.5 percent with no interest accruing during construction period. Monthly repayment shall be \$2,475 for 20 years commencing on March 31, 1985, with unpaid balance due in full at end of the 20-year payment period.	<u>138,409</u>	<u>155,479</u>
	<u>738,409</u>	<u>755,479</u>
<u>Recycled Urban Development Action Grants</u>		
Note receivable, on a non-interest bearing basis, due in 2010, or upon sale or refinancing of the project as per terms of the agreement.	<u>600,000</u>	<u>600,000</u>
<u>Special Loans</u>		
Non-recourse note receivable made with U.S. Department of Housing and Urban Development ("HUD") section 108 funds through an agreement with the City. Under the agreement, the company is to make monthly payments to EDC. The City, in turn, is paying HUD semi-annual interest payments. Under a revised agreement dated April 23, 2003, the entire loan becomes due in February 2009. The note is secured by property and assets of the debtors.	-0-	6,998,197
Note receivable, collateralized by a first mortgage on property. The loan was made to assist in the purchase of property adjacent to an EDC building which is used as a materials distribution center. The loan is to be repaid over the next four years.	44,098	53,227

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

June 30, 2004 and 2003

**NOTE B - NOTES RECEIVABLE (CONTINUED)**

	<u>2004</u>	<u>2003</u>
<b><u>Special Loans (continued)</u></b>		
Non-recourse HUD section 108 loan, issued in July 1992 and administered by EDC. The loan was restructured in November 1994, resulting in a \$1,000,000 note being held by EDC and \$1,000,000 in preferred stock being held by DEGC. Monthly principal and interest payments are being made, with the final payment due in 2004.	\$ 64,900	\$ 188,555
Note receivable, on demand, with interest at one percent over the prime rate. The note is for gap financing, awaiting HUD section 108 funds from the City. Repayment expected within one year.	1,216,889	1,278,214
Note receivable, on demand, with interest at one percent over the prime rate. The note is for gap financing, awaiting HUD Urban Development Action Grant funding. Repayment expected within one year.	300,000	300,000
Loan made for construction costs. Note receivable, with annual payments due on each July 31. Final payment is due on July 31, 2007.	175,470	226,821
Note receivable, with annual payments commencing on December 31, 2008, and continuing on each December 31 through and including December 31, 2020. Interest is computed at six percent, and begins to accrue on January 1, 2008.	500,000	500,000
Note receivable, secured by a mortgage on a building. No payments of principal or interest are due for the first two years. After two years, monthly payments of \$829, including interest at three percent per annum, are due. The note matures on March 1, 2015.	90,540	93,532
	<u>\$ 2,391,897</u>	<u>\$ 9,638,546</u>

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**June 30, 2004 and 2003**

**NOTE B - NOTES RECEIVABLE (CONTINUED)**

	<u>2004</u>	<u>2003</u>
Various notes receivable that have been fully reserved	\$ 2,221,025	\$ 2,221,025
	6,671,798	20,490,597
Less: Allowance for doubtful notes receivable	<u>(4,079,602)</u>	<u>(7,362,638)</u>
<b>Net Notes Receivable</b>	<b><u>\$ 2,592,196</u></b>	<b><u>\$ 13,127,959</u></b>

Changes in the allowance for doubtful notes receivable are as follows for the years ended June 30, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Balance, beginning of year	\$ 7,362,638	\$ 7,689,663
Additions	2,016,964	1,366,425
Less: Write-off of uncollectible notes receivable	<u>(5,300,000)</u>	<u>(1,693,450)</u>
<b>Balance, End of Year</b>	<b><u>\$ 4,079,602</u></b>	<b><u>\$ 7,362,638</u></b>

Because of the long-term nature of these notes receivable and the uncertainty of the time of collection on many of these notes receivable, the fair value of these notes receivable as of June 30, 2004 and 2003 cannot be readily determined.

On December 26, 2001, EDC issued \$1,700,000 to a railroad company under a loan agreement. Under the terms of the agreement, annual payments of \$350,000, plus interest at two percent under the prime rate, are due over the 64-month term of the note. However, EDC will forgive 20 percent of the balance, plus the interest, for each year in which the railroad company provides service to at least 700 trains; if fewer than 700 trains are serviced in a service year, EDC will forgive \$500 for each train that is serviced in that service year. During the first four service years covered by the agreement (the first service year began May 14, 2000), the railroad company serviced more than 1,000 trains per year, and management anticipates that more than 700 trains will be serviced in the next service year. As such, repayment of any principal or interest is not considered likely. Therefore, the \$1,700,000 in proceeds issued was classified as a project cost in the financial statements during the year ended June 30, 2002.

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

June 30, 2004 and 2003

**NOTE C - LONG-TERM LIABILITIES**

Long-term liabilities as of June 30, 2004 and 2003 consist of the following:

**Line of Credit**

EDC established a \$4.3 million line of credit with Bank One. Interest is charged at one percent over Bank One's prime rate. The line of credit is guaranteed by the future income streams of two of EDC's Urban Development Action Grant notes receivable. Payments on the line of credit are made primarily from the restricted funds.

**Loans Payable - City of Detroit**

EDC is administering loans for the City under various loan programs. The repayment terms to the City are similar to the corresponding notes receivable (see Note B). EDC acts as a pass-through agency for these loans unless instructed by the City to retain the loan repayments for possible future project activity. Payments on these loans are made primarily from the restricted funds. During the year ended June 30, 2003, one of these loans was refinanced to extend the maturity date from the year ended June 30, 2003 to the year ended June 30, 2009.

Long-term liability activity for the years ended June 30, 2004 and 2003 is as follows:

	<b><u>Line of Credit</u></b>	<b><u>City of Detroit Loans</u></b>	<b><u>Total</u></b>
Balance, July 1, 2002	\$ 1,992,000	\$ 11,794,555	\$ 13,786,555
Less: Repayments	<u>(612,000)</u>	<u>(1,171,369)</u>	<u>(1,783,369)</u>
<b>Balance, June 30, 2003</b>	<b>1,380,000</b>	<b>10,623,186</b>	<b>12,003,186</b>
Less: Repayments	<u>(1,380,000)</u>	<u>(7,859,038)</u>	<u>(9,239,038)</u>
<b>Balance, June 30, 2004</b>	<b><u>\$ -0-</u></b>	<b><u>\$ 2,764,148</u></b>	<b><u>\$ 2,764,148</u></b>
<b>Amounts Due Within One Year:</b>			
June 30, 2003	\$ 1,380,000	\$ 3,008,217	\$ 4,388,217
June 30, 2004	<u>\$ -0-</u>	<u>\$ 1,508,185</u>	<u>\$ 1,508,185</u>



ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

June 30, 2004 and 2003

**NOTE C - LONG-TERM LIABILITIES (CONTINUED)**

Maturities of long-term liabilities are as follows as of June 30, 2004:

<u>For the Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 1,508,185	\$ 91,282	\$ 1,599,467
2006	109,287	84,409	193,696
2007	111,196	77,005	188,201
2008	113,242	69,407	182,649
2009	120,435	61,424	181,859
2010-2014	521,803	195,677	717,480
2015-2017	280,000	26,336	306,336
	<u>\$ 2,764,148</u>	<u>\$ 605,540</u>	<u>\$ 3,369,688</u>

**NOTE D - REIMBURSABLE CONTRACTS**

EDC has entered into contracts to render services in exchange for reimbursements with local and state governments and agencies or departments. Contract costs (primarily operating expenses) allocated and billed to the contracts are subject to audit by the respective parties; however, no costs incurred prior to July 1, 1998 are subject to further audit.

**NOTE E - RISK MANAGEMENT**

The directors and officers of EDC have been indemnified from risk by the Detroit City Council (the "Council"). In July 1980, the Council provided indemnity to EDC Board members for any claims or causes of action brought against them acting in their official authorized capacity for EDC. EDC does maintain general liability insurance on any land that it may acquire through the acquisition process of the various projects it handles for the City. EDC is not in the business of buying and holding land; therefore, any land it may take title to is only held on a temporary basis until it can be turned over to the City or to a developer. The risk EDC undertakes in this process is minimal and, in management's opinion, is sufficiently covered by its insurance policies.

**REQUIRED SUPPLEMENTARY INFORMATION**

ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF DETROIT

**SCHEDULE OF REVENUE AND EXPENDITURES - BUDGET AND ACTUAL - UNRESTRICTED FUND (UNAUDITED)**

**For the Year Ended June 30, 2004**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance with Final Budget</u>
<b>Revenue:</b>				
Grants	\$ 300,000	\$ 300,000	\$ 300,000	\$ -0-
Interest and other income	10,000	10,000	1,995	(8,005)
<b>Total Revenue</b>	<u>310,000</u>	<u>310,000</u>	<u>301,995</u>	<u>(8,005)</u>
<b>Expenditures:</b>				
Current:				
Professional services	35,000	35,000	46,136	(11,136)
Administrative and operating expenses	640,000	640,000	647,290	(7,290)
<b>Total Expenditures</b>	<u>675,000</u>	<u>675,000</u>	<u>693,426</u>	<u>(18,426)</u>
<b>Excess (Deficiency) of Revenue over Expenditures</b>	<u>(365,000)</u>	<u>(365,000)</u>	<u>(391,431)</u>	<u>(26,431)</u>
<b>Other Financing Sources:</b>				
Interfund transfers	365,000	365,000	350,000	(15,000)
<b>Net Increase (Decrease) in Fund Balance</b>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ (41,431)</u>	<u>\$ (41,431)</u>